Because learning changes everything.®

Chapter 3

Macroeconomics: The Bird's-Eye View of the Economy

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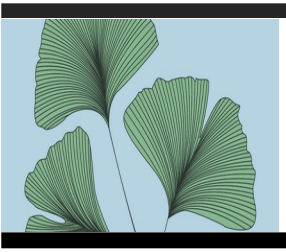

Learning Objectives

1. Discuss the broad issues that macroeconomists study and the types of data they use and interpret.
2. Identify the three major types of macroeconomic policy and discuss the difference between positive and normative analyses of macroeconomic policy.
3. Understand the difference between microeconomics and macroeconomics and how aggregation is used.

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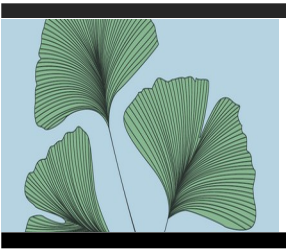

Introduction 1

The Great Depression.

- In the U.S.:
  - Factories cut production 31%.
  - Number of people without jobs nearly tripled by 1933 when the unemployment rate hit 25%.
  - Stocks lost a third of their value in 3 weeks.
- In Germany:
  - Nearly a third of all workers were without jobs.
  - Banking system collapsed.

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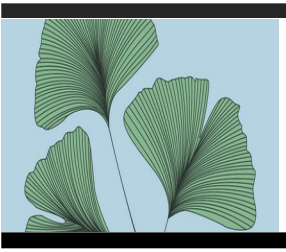

Introduction 2

The Great Depression.

- The cause?
  - The stock market?
  - Capitalism?
  - Poor economic planning?
- The response:
  - **Macroeconomic policies.**
    - Government actions designed to affect the performance of the economy as a whole.

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The Major Macroeconomics Issues 1

Standard of Living.

- The degree to which people have access to goods and services that make their lives easier, healthier, safer, and more enjoyable.

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The Major Macroeconomics Issues 2

Economic Growth.

- A process of steady increases in the quantity and quality of the goods and services the economy can produce.

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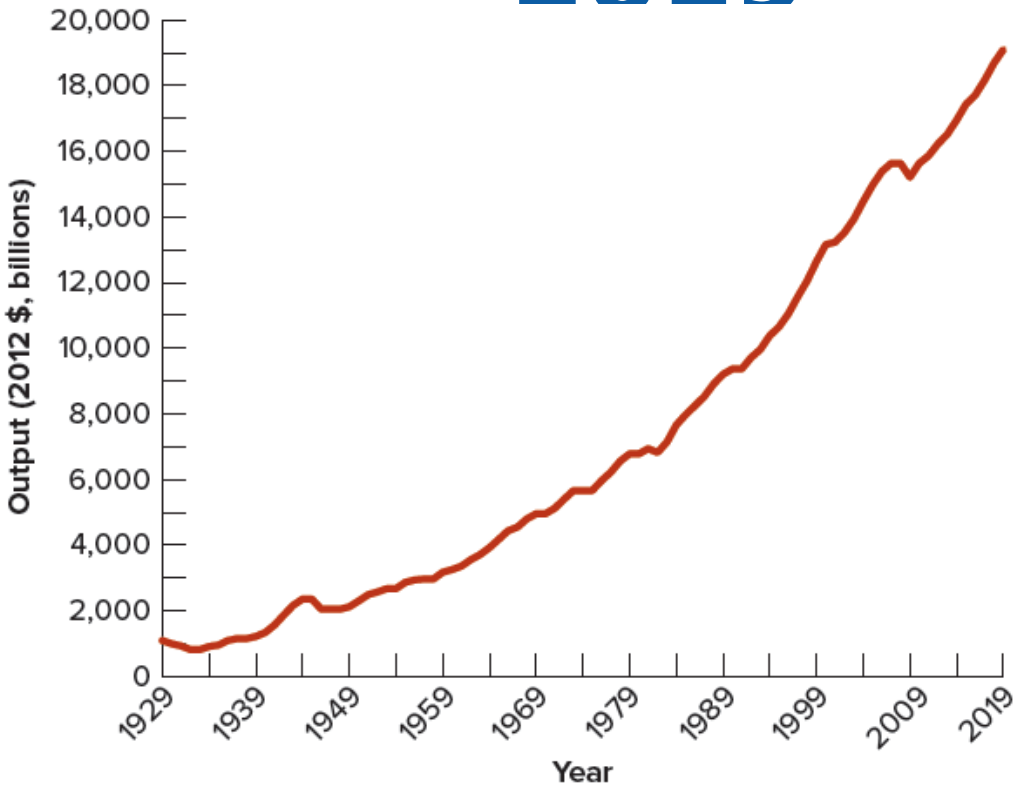
Output of the U.S. Economy, 1929-2019



In 2019 output of the U.S. economy was:

- 16 times the 1929 level.
- 4 times the 1965 level.

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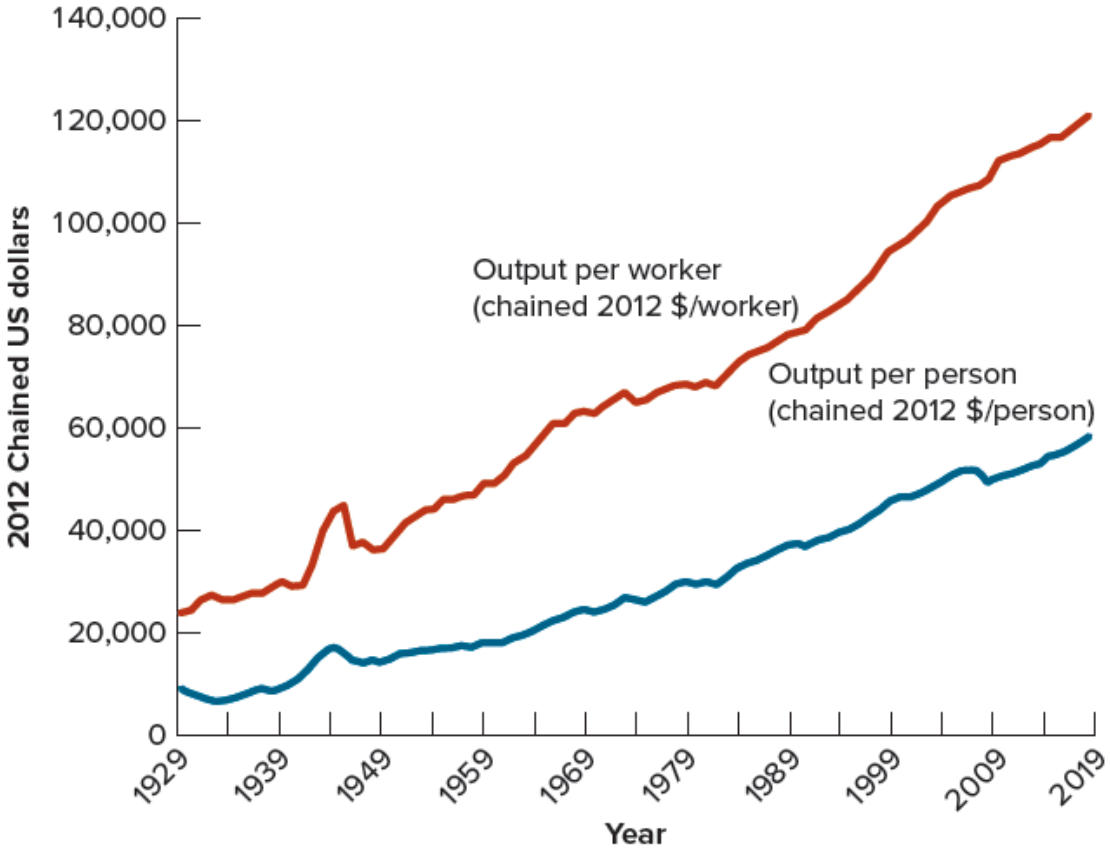
Output per Person and per Worker in the U.S. Economy, 1929-2019



In 2019:

- Output per worker was more than 5 times the 1929 level.

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The Major Macroeconomic Issues 3

In the U.S.:

- 96% of Americans own a cell phone.
- 87% of households own a computer.
- 77% of households with internet access.
- About 89% of the adult population has a high school diploma.
- 32% of the adult population has a college degree.

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The Major Macroeconomic Issues 4

Productivity.

- In 2019 the average U.S. worker could produce five times more than in 1930s.
- **Average labor productivity**:

$$\frac{\text{Total output}}{\text{Number of people employed}} = \text{output per employed worker}$$

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Productivity.

- U.S. trends in output per employed worker.
  - 1950 - 1973: increased more than 2% per year.
  - 1974 - 1995: close to 1% per year.
  - 1996 - 2007: between 1% and 2% per year.

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- Productivity and Living Standards in China and the United States.

2018	United States	China
Output	$20,494 billion	$13,608 billion (U.S.)
Population	327 million	1,393 million
Employed	159 million	756 million
Output/person	$62,673	$9,769
Average labor productivity	$128,893	$18,000

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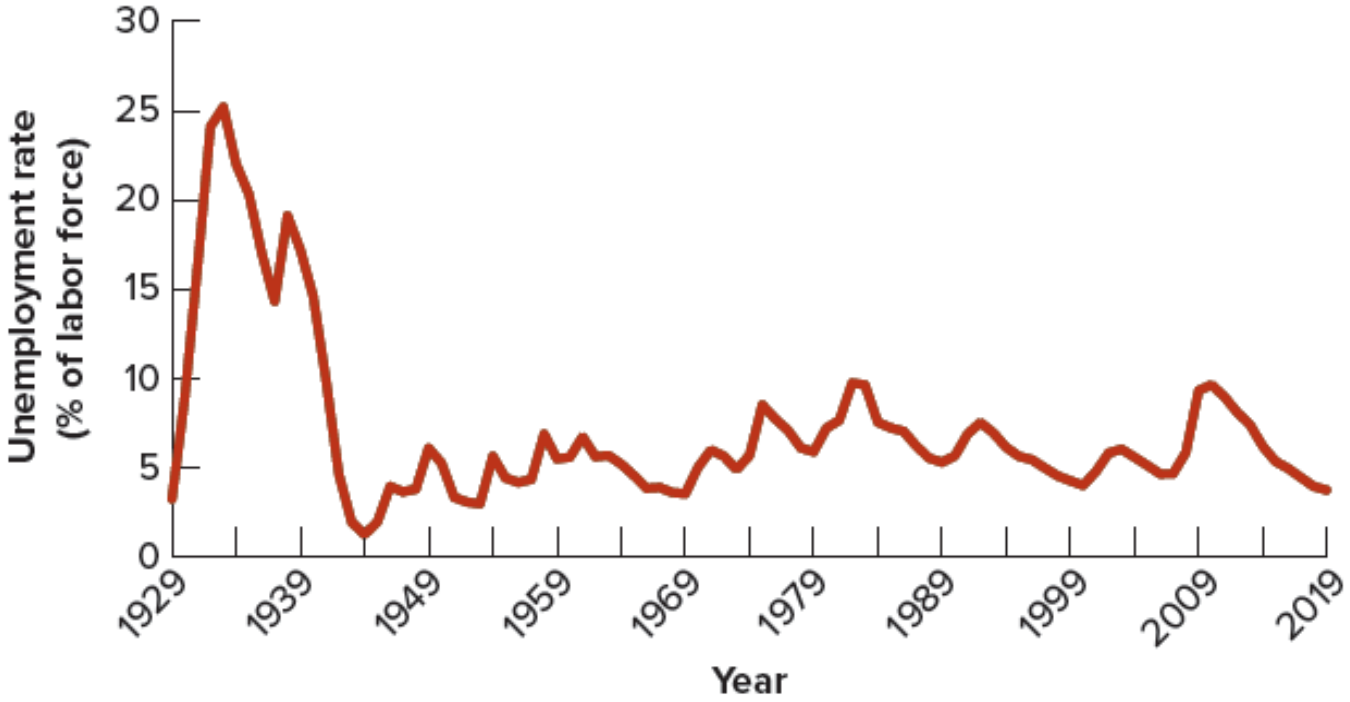
The U.S. Unemployment Rate, 1929-2019



The unemployment rate:
- % of the labor force that is out of work.

Observations:
- Rises during recessions.
- Always greater than zero.

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Increases In Unemployment During Recessions

Unemployment rate at beginning of recession (%)	Peak unemployment rate (%)	Increase in unemployment rate (%)
4.8 (Nov. 1973)	9.0 (May 1975)	+ 4.2
6.3 (Jan. 1980)	10.8 (Nov./Dec. 1982)	+ 4.5
5.5 (July 1990)	7.8 (June 1992)	+ 2.3
4.1 (Jan. 2001)	6.3 (June 2003)	+2.2
5.0 (Dec. 2007)	10.0 (Oct. 2009)	+5.0

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Unemployment rates differ from country to country:

- For the past 20 years, more than 10% of the European workforce has been unemployed.
- European unemployment is double the rate in the U.S.
- During the 1950s & ‘60s, the European unemployment rate was generally lower than in the U.S.

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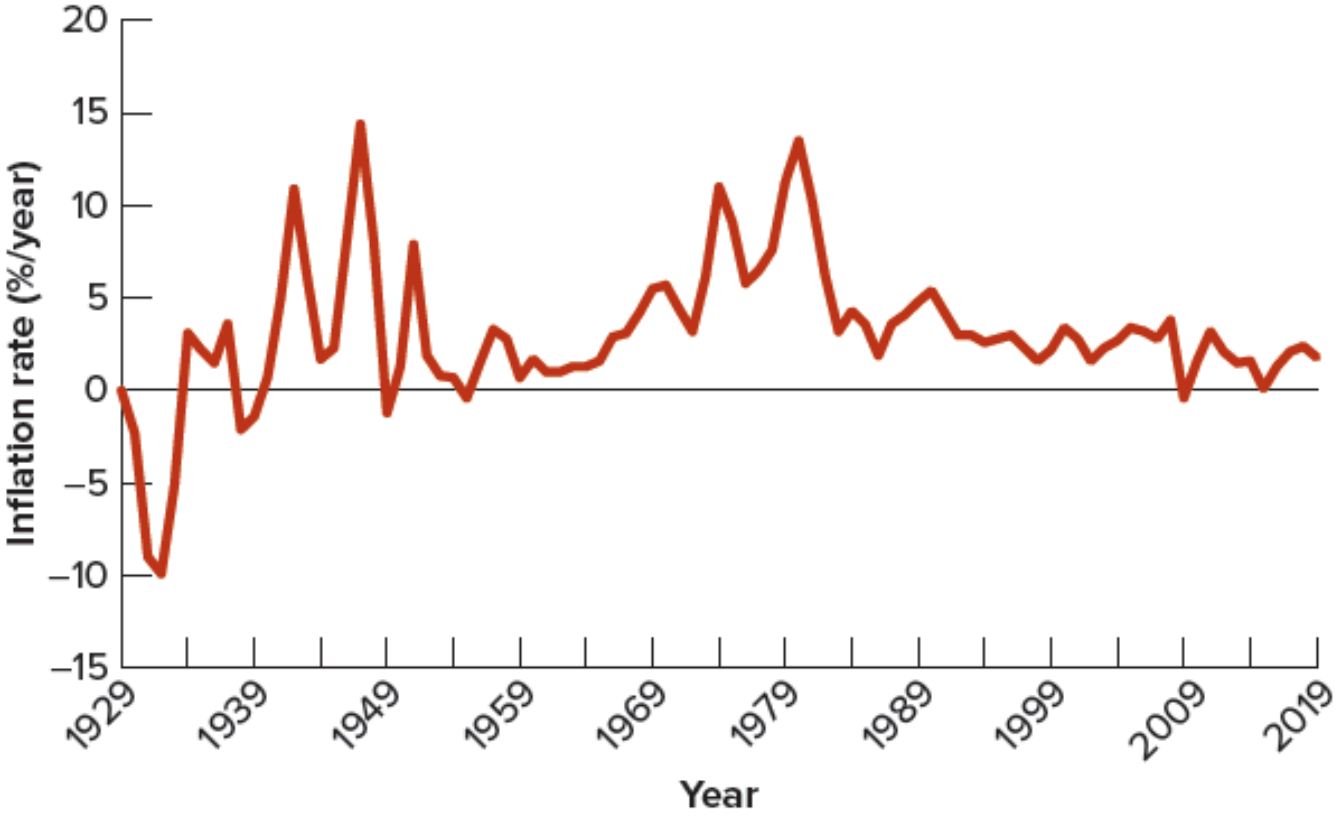
The U.S. Inflation Rate, 1929-2019



Inflation

- The rate prices in general are increasing over time.
- Varies over time -- high in the ‘70s and low in the ‘90’s and today.
- Varies between countries -- in 1990s 3% in U.S. & 400% in Ukraine.

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National economies are becoming increasingly interdependent:

- In 2019 the U.S.:
  - Exported 12% of all goods and services produced.
  - Imported 15% of the goods and services used by Americans.

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The international flows create political and economic issues:

- The impact of trade on jobs.
  - The steel and textile industries.
  - Trade agreements.
- Trade imbalances.
  - When exports and imports differ significantly.
  - Trade deficit: exports < imports.
  - Trade surplus: exports > imports.

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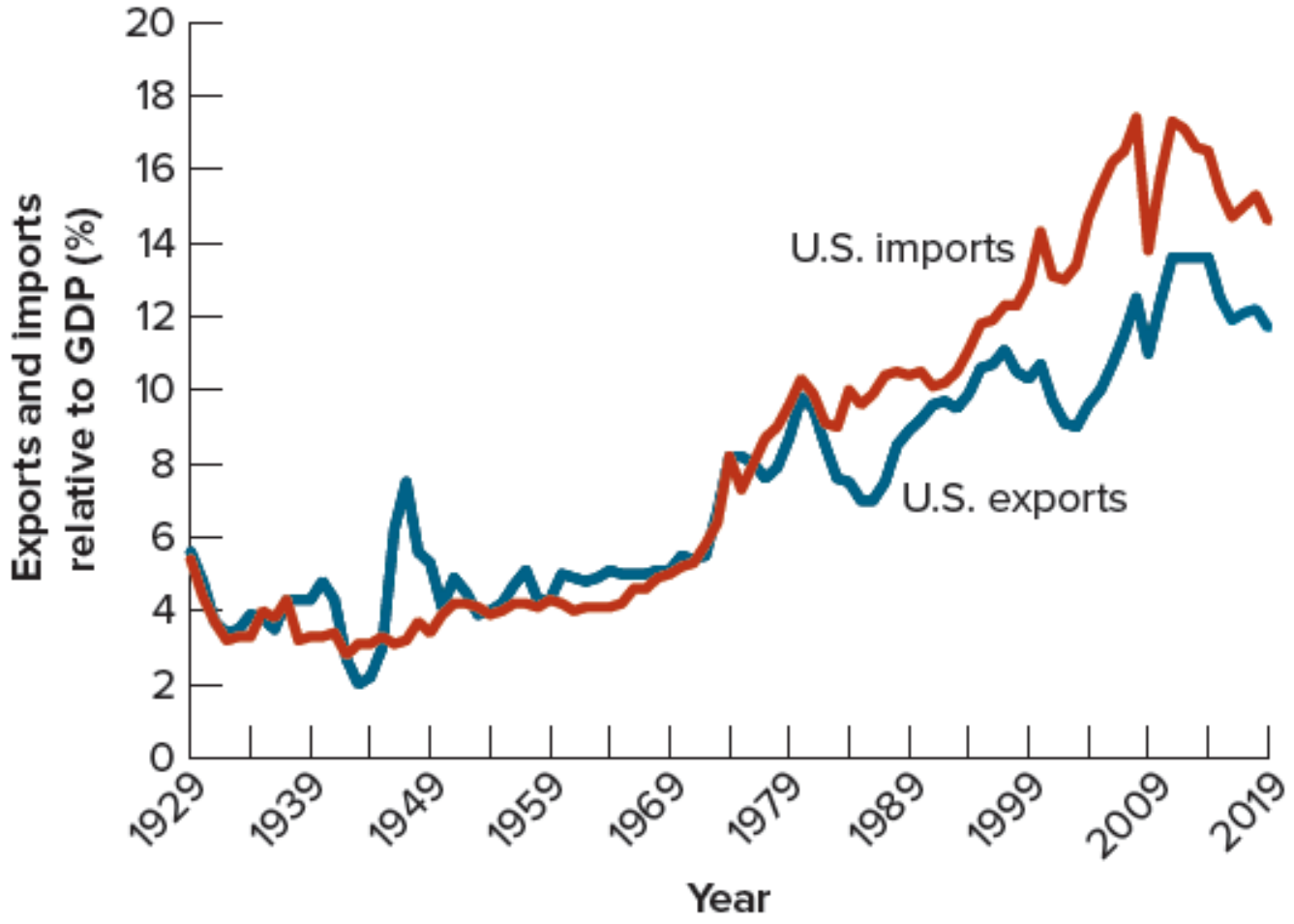
Exports and Imports as a Share of U.S. Output, 1929–2019



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10

- Economic growth and living standards.
- Productivity.
- Recessions and expansions.
- Unemployment.
- Inflation.
- Economic interdependence among nations.

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Macroeconomic Policy 1

Monetary Policy.

- Determination of the nation's money supply.
- Controlled by the *central bank* or, in the U.S., the Federal Reserve System (Fed).
- The central bank has the power to inject more money into the economy or remove it.
  - How much money should there be?

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Macroeconomic Policy 2

Fiscal Policy.

- Decisions that determine the government's budget, including the amount and composition of government expenditures and government revenues.
- How much should the government spend, and on what?

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Macroeconomic Policy 3

Fiscal policy influences the balance between government spending and taxes:

- A ***deficit*** occurs when government spending is greater than tax revenue.
- A ***surplus*** occurs when government spending is less than tax revenue.

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Macroeconomic Policy 4

Structural Policy.

- Government policies aimed at changing the underlying structure, or institutions, of the nation's economy.
- What should the economy look like?

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Macroeconomic Policy 5

Positive versus Normative Analyses of Macroeconomic Policy.

- **Positive Analysis.**
  - Addresses the economic consequences of a particular event or policy, not whether those consequences are desirable.

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Macroeconomic Policy 6

Positive versus Normative Analyses of Macroeconomic Policy.

- **Normative Analysis.**
  - Addresses the question of whether a policy *should* be used; normative analysis inevitably involves the values of the person doing the analysis.

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Aggregation 1

Aggregation.

- The adding up of the individual economic variables to obtain economywide totals.
- Used to take a “bird’s-eye view” of the economy.

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Aggregation 2

- Aggregate measurements in dollar values allow economists to compare broad categories of goods and services, such as exports and imports.
- Aggregation often obscures the fine detail of an economic situation.

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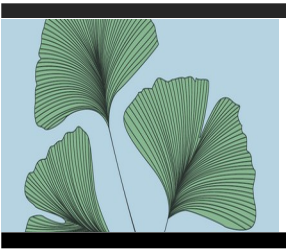

Aggregation 3

We rely on many aggregate statistics that let us see how things are going at a “bird’s-eye view”.

- Crime rates.
- Unemployment rates.
- Output per worker.

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